

Portfolio Breakdown

The following is a breakdown of the Investment Pool holdings for December 2008

	Average (\$000)	% of Portfolio
U.S. Agency Securities	2,621,149	65.3%
Commercial Paper	-	0.0%
Taxable Municipal Securities	16,055	0.4%
Bankers Acceptances	-	0.0%
U.S. Agency Mortgage-backed Securities	70,219	1.7%
Repurchase Agreements	14,581	0.4%
Treasury Securities	480,485	12.0%
Certificates of Deposit	403,369	10.0%
Local Government Investment Pool	410,219	10.2%
Reverse Repurchase Agreements	-	0.0%
Total	\$4,016,077	

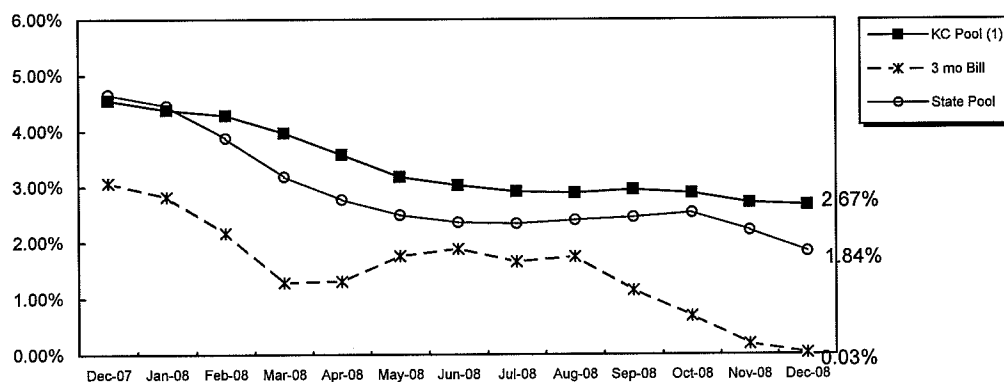
*Average Pool Effective Duration: 0.48 Years

*Duration is a measure of the length of the portfolio's expected cash flows and is a better measure of average portfolio life than maturity.

King County Pool Rating

In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Three of four restructurings have been completed in 2008 with one remaining in early 2009. King County has initiated discussions with S&P to restore the pool's AAA rating and anticipates action in the first half of 2009.

Investment Pool Performance (before Pool fees)



(1) King County Pool Distribution rate has not been adjusted yet for realized losses from impaired commercial paper investments.

Pool Net Asset Fair Value on December 31, 2008

Net Assets (2)	4,000,047,775.87
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	3,962,398,545.13
Undistributed and unrealized gains(losses)	37,649,230.74
Net Assets	4,000,047,775.87
Net asset value at fair value price per share (\$4,000,047,775.87 divided by 3,962,398,545.13 units)	1.0095

(2) Excludes impaired assets that have been separated into a separate pool.

Performing Pool Comments: We are continuing the strategy of investing the pools assets in securities that have the support of the Federal government: U.S. agency obligations, U.S. Treasury securities, and certificates of deposit and savings accounts with banks that have received capital infusions from the U.S. Treasury. We continue to consult regularly with our investment consultant, PFM, and they concur with our current strategy. PFM's latest quarterly portfolio review can be found at the "related links" on the Treasury web site at: <http://www.kingcounty.gov/operations/Finance/news/CommercialPaper.aspx>.

Events in the financial markets continued to be challenging, and in an effort to provide additional support to the credit markets, the Federal Reserve lowered its target rate from 1 percent to a range between zero and 1/4 percent in December. While this action provided much needed support to the credit markets, it resulted in short-term investment rates dropping to extremely low levels. This can be seen in the performance chart above that shows the average rate for 3-month Treasury Bills was only slightly above zero for the month of December. The impact can also be seen on the State Pool's and the King County Pool's yield for December. However, the King County Pool was not impacted as much because of our six-month average duration. But with short-term interest rates at such unusually low levels, the trend for the near term appears to be lower.

The unrealized gain in the portfolio was nearly \$38 million at year-end. Since there is an inverse relationship between interest rates and market values, the recent sharp reduction in market interest rates has caused the value of the securities held in the King County Pool to appreciate. Since the pool distributes earnings on an amortized book value basis, which is a common best practice for government investment pools, the pool does not distribute unrealized gains or losses to participants. However, unrealized gains imply that the pool's current yield is above investment rates presently available in the financial markets.

King County remains committed to sharing information with pool members about investment holdings and the impacts of the current turmoil in global credit markets. Please call the Treasury Operations number at 206-296-7326 if you have questions or need any additional information.

Impaired Pool Holdings Report
12/31/2008

Commercial Paper Issuer	Status	Current Book Value	Estimated Future Cash Recovery	Estimated Future Unrealized Loss
Mainsail II (1)	Restructured	3,022,926.58	782,000.00	2,240,926.58
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	1,885,308.88	1,134,600.00	750,708.89
Victoria Finance (2)	Restructuring In Progress	44,888,770.71	5,330,000.00	39,558,770.71
Total		50,584,508.31	7,754,350.00	42,830,158.32

Fair Value Ratio	0.1533
------------------	--------

(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be as long as 2014 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance restructuring is not complete. These estimates are based on market price from a single dealer willing to provide a quote. Note that the intrinsic value estimate from Victoria's trustee for the King County Pool's proportionate share is about \$24.2 million, excluding the recent cash payments, and this is materially higher than the \$5.3 million single dealer valuation.

Impaired Pool Comments: The King County Executive Finance Committee approved bifurcation of the investment pool so that the impaired investments would be in their own pool separate from the main pool of "performing" investments. The effective date of the bifurcation was September 1, 2008 (this date was selected based on input from pool members). The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

The vast majority of the amount remaining bifurcated as of December 31st is associated with Victoria, the one investment waiting for restructuring. The figures above have been adjusted for the cash distribution of about \$8 million involving Victoria that the pool received on December 22nd. Because of the turmoil in the financial markets and the US Treasury's decision not to use TARP funds to purchase mortgage securities, we have seen the market price for Victoria deteriorate. However, reports from our financial advisor, Cairn Capital, and Victoria's trustee suggest that the intrinsic value of the underlying securities within Victoria appears to be stronger than the current market price reflects, i.e., an intrinsic value of 45.5% versus a market price from a single dealer quote of 10% (based on original par amount of \$53.3 million). In addition, the December portfolio report for Victoria showed that nearly 90% on the underlying assets were still rated as investment grade by Standard & Poor's and Moody's. Adding the \$8 million received in December to the year-end dealer price results in an estimated recovery rate to senior investors of about 25 percent. Victoria is now distributing cash on a monthly basis, and we received a second cash distribution of about \$435,000 in early January. These monthly distributions should continue, and we still expect the restructuring of Victoria to occur sometime in the first half of 2009.

There are also "tail" payments from the other three completed restructurings (Cheyne, Rhinebridge and Mainsail) that will remain bifurcated until such time that we receive future cash payments and convert the remaining unrealized losses into realized losses.